

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
_____)	

**REPLY COMMENTS OF THE
UNITED STATES TELECOM ASSOCIATION**

The United States Telecom Association (USTA),¹ through the undersigned and pursuant to the *Public Notice* released by the Federal Communications Commission's (FCC's or Commission's) Wireline Competition Bureau (WCB)² and pursuant to sections 1.415 and 1.419 of the Commission's rules,³ hereby submits its reply comments on the Recommended Decision. In these reply comments, USTA responds to the comments filed by AT&T Corp. (AT&T). Specifically, USTA addresses AT&T's recommendation that the "Commission should now begin the task of developing the permanent support mechanisms for the rural carriers, based on the same principles and features of the [universal service support] program for nonrural carriers, including funding based on forward-looking economic costs."⁴

USTA reiterates and re-emphasizes here what it stated in its comments in this proceeding on the Recommended Decision. USTA noted in its comments that the Commission did not refer to the Federal-State Joint Board on Universal Service (Joint Board) for consideration any matters regarding the rural high-cost universal support mechanism. In fact, the Joint Board specifically

¹ USTA is the Nation's oldest trade organization for the local exchange carrier industry. USTA's carrier members provide a full array of voice, data and video services over wireline and wireless networks.

² *Public Notice*, DA 02-2976 (rel. Nov. 5, 2002) soliciting comment on *Federal-State Joint Board on Universal Service*, CC Docket 96-45, Recommended Decision (rel. Oct. 16, 2002) (Recommended Decision).

³ 47 C.F.R. §§1.415 and 1.419.

⁴ AT&T Comments at 20.

acknowledged that its Recommended Decision only applied the non-rural high-cost universal service support mechanism, not the rural mechanism. Importantly, USTA notes that, with the exception of AT&T, no commenting party in this proceeding has suggested that the determinations of this proceeding on the non-rural high-cost mechanism should be applied to the rural high-cost mechanism. Rather, several parties (*i.e.*, National Rural Telecom Association (NRTA), the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and GVNW Consulting, Inc. (GVNW)), like USTA, have emphasized the Joint Board's statement that the Recommended Decision only applies to high-cost non-rural carriers and have urged the Commission to refrain from applying determinations made in this proceeding to high-cost rural carriers.⁵ USTA agrees with NRTA and OPASTCO that the Commission and Joint Board were "correct in limiting the scope of this proceeding to the non-rural carrier issues that were before the court and remanded to the Commission for further explanation."⁶ USTA also agrees with NRTA and OPASTCO that the "Commission has yet to refer to the Joint Board the complex issue of developing a long-term universal service support plan for rural carriers Consequently, any modification of the existing methodology for calculating high-cost support for rural carriers, prior to July 1, 2006, would be premature and jeopardize the predictability and stability that the five-year RTF plan presently offers."⁷ Accordingly, the Commission should not permit AT&T to interject into this proceeding a substantive review of high-cost universal service support for rural carriers when the Commission has not initiated such a review and properly requested comment on the high-cost rural fund.

⁵ See NRTA and OPASTCO Comments at 1, 2 and 4 and GVNW Reply Comments at 1-2.

⁶ See NRTA and OPASTCO Comments at 4.

⁷ See *id.* at 5-6.

USTA also emphasized in its comments – and NRTA, OPASTCO, and GVNW agree⁸ – that the rural high-cost mechanism is governed by the Rural Task Force Order.⁹ USTA emphasizes again here that rural carriers are currently receiving federal high-cost universal service support pursuant to the Rural Task Force Order, which provides such support to rural carriers through a modified embedded cost mechanism through June 30, 2006. This support mechanism for rural carriers must remain in place through that date to ensure that rural carriers will have predictable levels of support so that they can continue to provide affordable and quality telecommunications services to rural America. AT&T’s recommendation that funding to rural high-cost carriers should now be based on forward-looking economic costs plainly overlooks the Commission’s clear finding in the Rural Task Force Order on funding to rural carriers. Specifically, with regard to the Commission’s adoption of funding for high-cost rural carriers based on a modified embedded cost mechanism, the Commission stated that it believed “that providing rural telephone companies with a predictable level of universal service support during a five-year period will create a stable environment that will enable rural telephone companies to continue providing supported services at affordable rates to rural America.”¹⁰ Moreover, USTA agrees with NRTA and OPASTCO that Joint Board has not questioned in its Recommended Decision the validity of the five-year period for support to rural carriers provided for in the Rural Task Force Order.¹¹ Accordingly, the Commission should recognize the continuing validity of

⁸ See NRTA and OPASTCO Comments at 5 and GVNW Reply Comments at 2.

⁹ See *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, Report and Order in CC Docket No. 00-256, 16 FCC Rcd 11244 (2001) (Rural Task Force Order).

¹⁰ Rural Task Force Order, para. 167.

¹¹ See NRTA and OPASTCO Comments at 5.

the Rural Task Force Order and should not reduce the timeframe of applicability of the Rural Task Force Order.

USTA also stated in its comments that the Commission should refrain from applying any determinations it makes in this proceeding on the non-rural high-cost support fund to rural carriers because there continue to be significant cost differences between rural and non-rural carriers, which necessitate the current distinctions between the rural and non-rural high-cost funds and which the Commission recognized in the Rural Task Force Order.¹² In addition, USTA agrees with NRTA and OPASTCO that the “Commission and the Joint Board have consistently recognized that rural LECs ‘face diverse circumstances and that one-size-does-not-fit-all in considering universal service support mechanisms that are appropriate for rural carriers.’”¹³ USTA also agrees with NRTA, OPASTCO, GVNW, and the National Association of State Utility Consumer Advocates (NASUCA) that the underlying reasons for the differentiated rural and non-rural universal service support funds remain applicable today.¹⁴ These commenting parties all cite the findings of the Rural Task Force in its White Paper 2¹⁵ as the continuing basis for why the determinations made in this proceeding on the non-rural high-cost support fund should not apply to the rural high-cost support fund. GVNW summarizes these findings:

1. rural carriers serve more sparsely populated areas;
2. there is significant variation in study area sizes and customer bases among rural carriers;
3. the isolation of areas served by rural carriers results in numerous operational challenges;

¹² See Rural Task Force Order, para. 5.

¹³ NRTA and OPASTCO Comments at 6, *quoting* Rural Task Force Order, para. 4.

¹⁴ See NRTA and OPASTCO Comments at 6-7, GVNW Reply Comments at 4-6, and NASUCA Comments at 5.

¹⁵ See “The Rural Difference,” Rural Task Force White Paper 2 (Jan. 2000), <http://www.wutc.wa.gov/rtf> (White Paper 2).

4. compared to non-rural carriers, the customer base of rural carriers generally includes fewer high-volume users, depriving rural carriers of economies of scale;
5. compared to customers of non-rural carriers, customers of rural carriers tend to have a relatively small local calling scope and make proportionately more toll calls;
6. rural carriers frequently have substantially fewer lines per switch than do non-rural carriers, providing fewer customers over which to spread high fixed network costs;
7. total investment in plant per loop is substantially higher for rural carriers than for non-rural carriers;
8. plant specific and operations expenses for rural carriers tend to be substantially higher than for non-rural carriers; and
9. customers served by rural carriers have different demographic characteristics from customers in areas served by non-rural carriers.¹⁶

AT&T has made no effort to contradict these findings. Accordingly, the Commission should recognize that these findings remain valid and that they necessitate continuation of separate universal service funding mechanisms for rural and non-rural carriers.

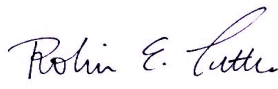
For the foregoing reasons, USTA urges the Commission not to address in this proceeding AT&T's recommendation to provide universal service funding to rural high-cost carriers on the same basis as such funding is provided to non-rural high-cost carriers. As USTA has explained, now is not the appropriate time to base universal service support funding for high-cost rural carriers on the forward-looking economic cost models used for non-rural high-cost carriers. In addition, now is not the time for the Commission to address the overall size of the universal

¹⁶ GVNW Reply Comments at 5-6.

service fund. The only part of the fund that is under consideration now, and presented for public comment, is the high-cost fund for non-rural carriers.

Respectfully submitted,

UNITED STATES TELECOM ASSOCIATION

By: 

Lawrence E. Sarjeant
Indra Sehdev Chalk
Michael T. McMenamin
Robin E. Tuttle

Its Attorneys

1401 H Street, NW, Suite 600
Washington, D.C. 20005
(202) 326-7300

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CERTIFICATE OF SERVICE

I, Robin Tuttle, do certify that on January 17, 2003 copies of the foregoing Reply Comments of the United States Telecom Association were either sent via electronic mail or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the below service list.

/s/

Robin Tuttle

Sheryl Todd
Telecommunications Access Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street, SW
Room 5-B540
Washington, DC 20554

Qualex International
Portals II
445 12th St. S.W.
Room CY-B402
Washington DC 20554

Sharon J. Devine
Craig J. Brown
QWEST Corporation
1020 19th Str. NW, Suite 700
Washington, DC 20036

Stuart E. Polikoff
Jeffrey W. Smith
OPASTCO
21 Dupont Circle NW
Suite 700
Washington, DC 20036

Michele C. Farquhar
David L. Sieradzki
Hogan & Hartson LLP
Columbia Square
555 Thirteenth St. NW
Washington, DC 20004

Jeffry A. Brueggeman
Gary L. Phillips
Paul K. Mancini
SBC Communications Inc.
1401 Eye Street, NW
Site 1100
Washington, D.C. 20005

Joseph DiBella
Michael E. Glover
Edward Shakin
Verizon Wireless
1515 North Court House Road
Suite 500
Arlington, VA 22201

James P. Young
Sidley Austin Brown & Wood
1501 K St., N.W.
Washington, Dc 20005

Martin Jacobson, Esq.
Montana Public Service Commission
1701 Prospect Avenue
PO. Box 202601
Helena, MT 59620-2601

Mary Wright, Esq.
616 Helena Avenue
Helena, Montana 59620-1703

Rebecca Klein
Brett A. Perlman
Julie Caruthers Parsley
Texas PUC
1701 North Congress Avenue
P.O. Box 13326
Austin, TX 78711

Peter Bluhm
Vermont Public Service Board
Drawer 20
112 State St., 4th Floor
Montpellier, VT 05620

Mark C. Rosenblum
Judy Sello
AT&T Corp
Room 3A229
One AT&T Way
Bedminster, NJ 07921

Joel B. Shifman
Maine Public Utilities Commission
242 State Street
18 State House Station
Augusta, ME 04333

M. Ruth O'Neill
Missouri Office of Public Counsel
200 Madison Street, Ste. 650
POB 7800
Jefferson City, MO 65102

John Sayles, Esq.
112 State Street
Montpelier, VT 05602

Steve Ellenbecker
Steve Furtney
Kristin H. Lee
Wyoming Public Service Commission
2515 Warren Avenue, Suite 300
Cheyenne, Wyoming, 82002

Lynda L. Dorr
Public Service Commission of Wisconsin
610 North Whitney Way
P.O. Box 7854
Madison, WI 53707 -7854

Lawrence G. Malone
New York Public Service Commission
3 Empire State Plaza
Albany, NY 12223-1350

Paul J. Feldman
Fletcher, Heald & Hildreth, PLC
1300 North 17th Street
11th Floor
Arlington, VA 22209

Gary Cohen
Lionel B. Wilson
Jonady Hom Sun
Public Utilities Commission State of California
505 Van Ness Avenue
San Francisco, CA 94102

David Cosson
Kraskin, Lesse & Cosson, LLP
2120 L Street, NW, Ste. 520
Washington, DC 20037

Jay Keithley
Richard Juhnke
Sprint Corporation
401 9th Str. NW #400
Washington, DC 20004

Jeffrey H. Smith
GVNW Consulting, Inc.
P.O. Box 1220
Tualatin, OR 97062

Margot Smiley Humphrey
Holland & Knight
2099 Pennsylvania Avenue
Suite 100
Washington, DC 20006

Robert S. Tongren
David C. Bergmann
National Assoc. of State Utility Consumer Advocates
(NASUCA)
10 West Broad Street, Suite 1800
Columbus, OH 43215

Craig T. Smith
Sprint Corporation
6450 Sprint Parkway
Overland Park, KS 66251